Premier Miton
INVESTORS

Miton UK MicroCap Trust

Preparing for the UK microcap super-cycle

FOR INVESTMENT PROFESSIONALS ONLY. CAPITAL AT RISK.

Thinking ahead of the curve

Premier Miton
INVESTORS

Agenda

1

Asset valuations have been unusually buoyant for decades, so does it matter if they are standing at a degree of valuation overstretch currently?

2

If nationalism and protectionism are now injecting all sort of uncertainties, how might this affect the returns on mainstream indices and the flow of capital allocations in the future?

3

Given these potential changes, what are the characteristics of strategies that might be vulnerable, or those best positioned to deliver strong and resilient returns in the future?

4

Even if all this change does lead to renewed UK outperformance, will its recovery ever really be significant enough in the global context, given that many consider the UK to be only a market of marginal interest?

5

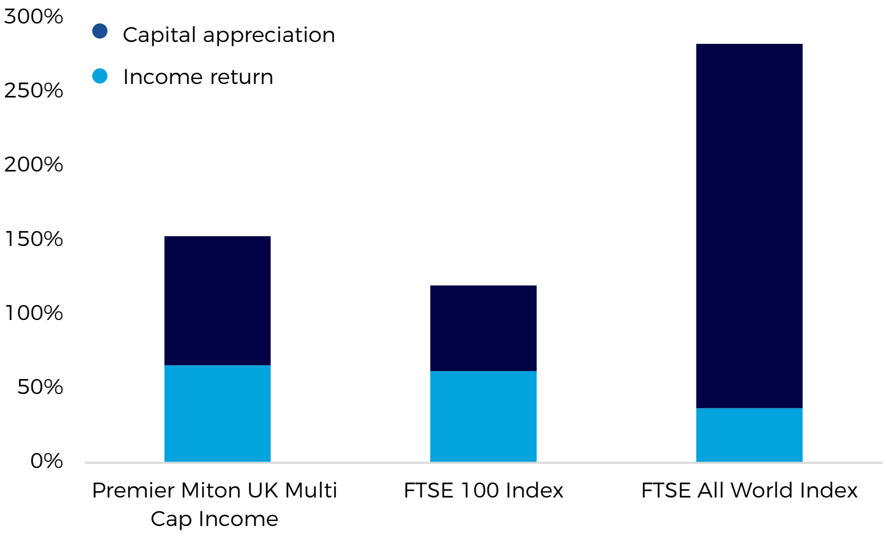
UK-quoted microcaps are by their nature fiddly, and illiquid, so is it really credible that mainstream portfolios will ever seriously consider including microcaps within their asset mix in the future?

Equity market returns come in two flavours – capital appreciation and the compounding of cash dividends

Premier Miton INVESTORS

- Quoted companies that succeed, don't just generate return via share price appreciation, but many add resilience to that return by using their substantial cash generation to pay good and growing dividends
- The buoyant equity market conditions during globalisation, however, have made it incredibly easy for immature largecaps to access ever larger sums of risk capital, and deliver unusually strong returns via share price appreciation alone. Capital appreciation strategies are popular because they have outperformed for some decades
- In contrast, stocks delivering less buoyant share price appreciation mixed with cash dividends that enhance their return, are now perceived as dull, and lacking ambition as they have been outpaced
- Over the decades, capital appreciation strategies have become more popular, and they have gathered increasingly large capital allocations, in a favourable trend that has persisted for so long, that very few investors recognise the nature of the risk they are now carrying
- The nightmare about an overreliance on capital appreciation strategies is that at a time of high valuations, their returns can be lost near-instantaneously, permanently, and without warning.
- In capital appreciation strategies, investors wholly rely on two well-timed transactions to succeed in securing an attractive return for clients

Capital appreciation and dividend contribution to the returns of Premier Miton UK Multi Cap Income Fund since launch



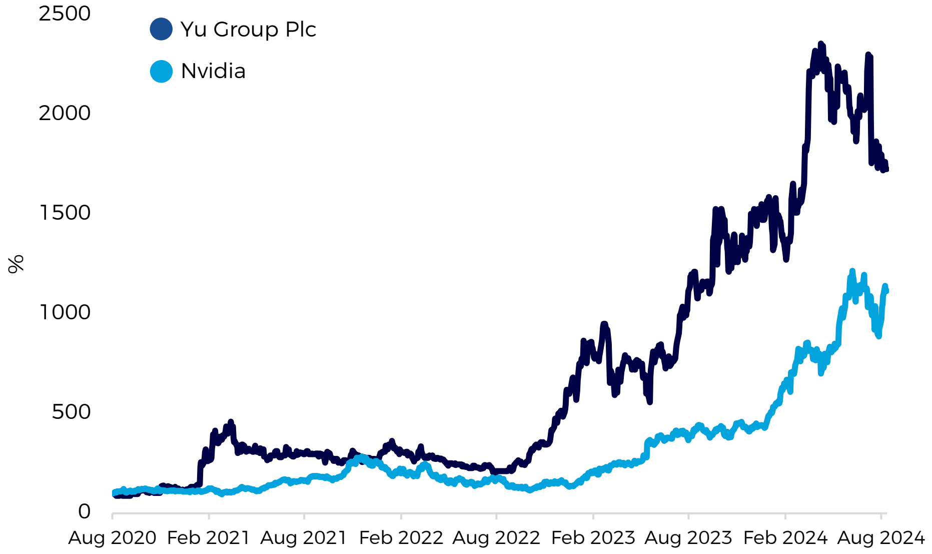
After persistent globalisation tailwinds, few recognise the risks of mixing inflated valuations with strategies that rely solely on capital gains for return

Source: Bloomberg, data from fund inception, 14.10.2011 to 31.07.2024. Over a 5-year period from 31.07.2019 to 31.07.2024 the fund returned 26.6%, the UK Equity Income Sector returned 32.8%, the FTSE All Share Index returned 32.4% and the FTSE AIM All Share Index returned -9.5%, FE Analytics. Based on UK sterling class B Accumulation, on a total return basis to 31.07.2024. Performance is shown net of fees with income reinvested. On 30.11.2020 this fund moved from a single pricing basis (mid) to a swing pricing basis. Performance could be shown on a combination of bid, mid or offer prices, depending on the period of reporting. **Past performance is not a reliable indicator of future returns.**

Meanwhile, capital has been withdrawn from UK microcaps, even those set to generate abundant cash imminently…

- Few professional investors (even professional smallcap investors), research stocks below an arbitrary market capitalisation such as £150m, and as such they ignore the potential of more than half of all the quoted companies listed in the UK
- A good example of the potential upside of microcaps is Yu Group, an immature utility that during 2020 was at a market capitalisation of only £16m despite having sales of £102m, net cash balances of £12m, and rapid growth potential
- Over the last few years, Yu Group has indeed reported rapid sales and profit growth, and abundant cash generation, such that it has now started to pay good and growing dividends
- One of the advantages of stocks generating abundant cash surpluses, is they have numerous methods of delivering return – by reinvesting in extra growth, acquiring competitors, buying back shares, paying substantial dividends etc.
- Although the trust's holding in Yu Group was only around 1% of the portfolio initially, up to the end of July 24 it had enhanced the trust's NAV by 10.4%, and even after taking profits, the trust's weighting is still circa 7.6% (as at 31.07.2024)
- Over the last four years or so, the return on Yu has exceeded Nvidia

Yu has outperformed Nvidia



…such that many now stand on incredibly low valuations, and thus currently have the potential to deliver exceptionally strong returns

Chart source: Bloomberg, data from 12.08.2020 to 22.08.2024.

Past performance is not a reliable indicator of future returns.

Miton UK MicroCap Trust has an unusually broad portfolio of holdings....

- Miton UK MicroCap Trust specifically has a longer list of portfolio holdings than most other smallcaps
- Some might anticipate that the trust's return from some of the tiny microcap holdings will comprise a relatively small proportion of its overall return. The nature of these stocks is that some share prices can rise so dramatically, that they can contribute a surprisingly large proportion of the trust's return
- Hence, we view the longer list of portfolio holdings as not having to exclude any that are unusually tiny because many stand on what appear to be absurdly low valuations
- Specifically, the Miton UK MicroCap Trust portfolio contrasts with most small cap OEICs that often have shorter lists of midcaps, and some larger small caps
- Overall, the trust's relatively long list of holdings helps to moderate stock specific risk, but also facilitates the opportunity of the exceptional potential upsides of tiny microcaps that are standing on unusually low valuations

Illustration of the multiple sources of income within the Miton UK MicroCap Trust

...but also, can include all sorts of tiny microcaps with the potential to deliver exceptional returns, because many stand on such low valuations

For illustrative purposes only.

The strategy specifically focuses on maturing microcaps that have the potential to generate abundant cash in the future

Premier Miton INVESTORS

Zoo Digital Plc

- Prospects for rising turnover?
- Do unexpected cost increases get passed on to the customer?
- Does the management team make decisions that we feel will build value?
- How much financial headroom is there in the balance sheet?
- Are there low expectations in the share price?

Share price from 31.07.2019 to 31.07.2024

- Zoo Digital is a subtitling/dubbing service business for film and media streaming companies that uses innovative cloud technology to compete globally
- Although its market capitalisation was over £170m in early 2023, it fell to well under £30m during the Hollywood writers' strike when sales fell sharply
- When the writers' strike ended, the trust invested at what we considered was an unusually low market capitalisation
- Zoo Digital had grown well prior to the writers' strike

Cash generative companies tend to have resilient upsides even in unsettled markets, all the more so when they are rebounding from low valuations

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.07.2019 to 31.07.2024.

Past performance is not a reliable indicator of future returns. Forecasts are not reliable indicators of future returns.

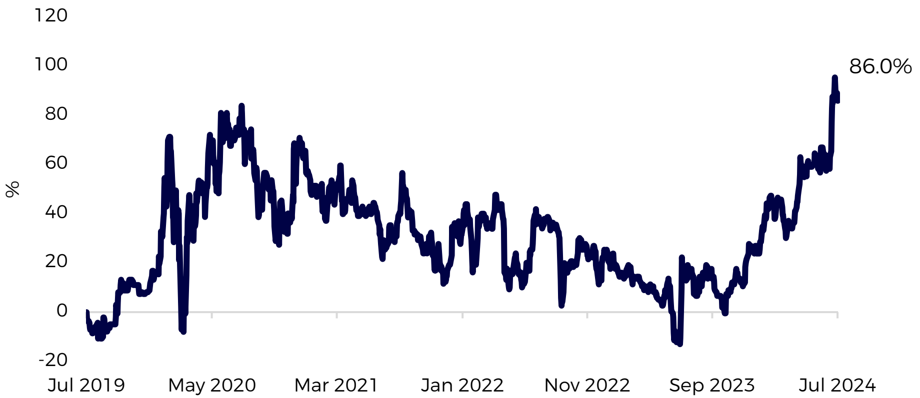
The strategy specifically focuses on maturing microcaps that have the potential to generate abundant cash in the future

Premier Miton INVESTORS

Concurrent Technologies Plc

- Prospects for rising turnover?
- Do unexpected cost increases get passed on to the customer?
- Does the management team make decisions that we feel will build value?
- How much financial headroom is there in the balance sheet?
- Are there low expectations in the share price?

Share price from 31.07.2019 to 31.07.2024



- Concurrent Technologies is a defence company with a long history of delivering ruggedised computer boards for challenging physical environments
- We have long admired its market position, but became enthused after a new CEO was appointed in June 2021
- Under his leadership, we believed the potential for the business has been greatly enhanced, and the trust supported a fundraising in August 2023
- Concurrent has expanded its market position via an acquisition, and recently has announced a series of major new contracts
- The new leadership has already changed Concurrent's sales and profit trajectory

Cash generative companies tend to have resilient upsides even in unsettled markets, all the more so when they are rebounding from low valuations

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.07.2019 to 31.07.2024.

Past performance is not a reliable indicator of future returns.

The strategy specifically focuses on maturing microcaps that have the potential to generate abundant cash in the future

Premier Miton INVESTORS

CyanConnode Holdings Plc

Prospects for rising turnover?

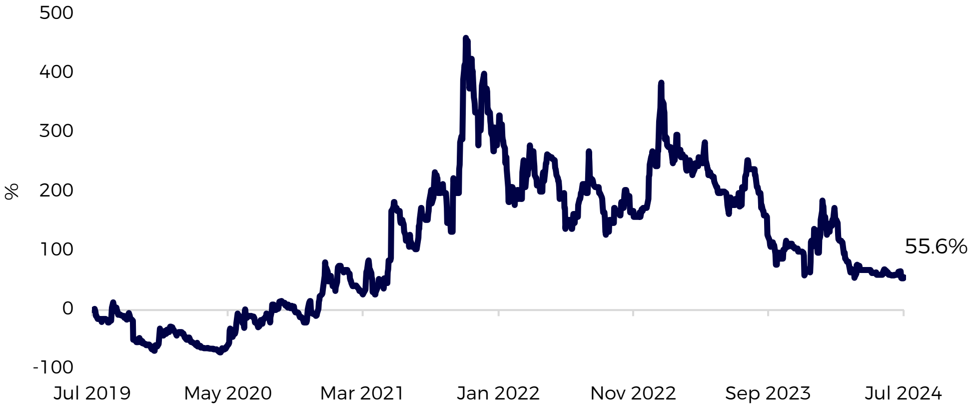
Do unexpected cost increases get passed on to the customer?

Does the management team make decisions that we feel will build value?

How much financial headroom is there in the balance sheet?

Are there low expectations in the share price?

Share price from 31.07.2019 to 31.07.2024



- CyanConnode Holdings collects utility usage data from households via (RF) Radio Frequency mesh, suited to smart meters in developing nations
- Over the last ten years, Cyanconnode has been the leading provider of smart meters in India, and has also made sales in other developing nations
- In the last few years, India has planned to install a smart meter in every household. Smart meters identify theft relatively easily
- The meter orders for CyanConnode and other suppliers have been held up by Indian bureaucracy, yet even so CyanConnode have still grown their sales well

Cash generative companies tend to have resilient upsides even in unsettled markets, all the more so when they are rebounding from low valuations

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.07.2019 to 31.07.2024.
Past performance is not a reliable indicator of future returns.

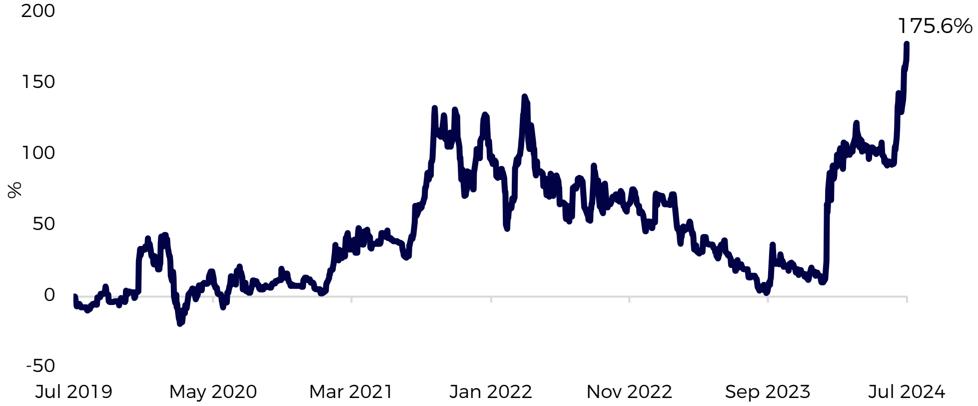
The strategy specifically focuses on maturing microcaps that have the potential to generate abundant cash in the future

Premier Miton INVESTORS

Beeks Financial Plc

- Prospects for rising turnover?
- Do unexpected cost increases get passed on to the customer?
- Does the management team make decisions that we feel will build value?
- How much financial headroom is there in the balance sheet?
- Are there low expectations in the share price?

Share price from 31.07.2019 to 31.07.2024



- Beeks Financial's Exchange Cloud is a fully configured physical trading environment, that helps exchange price engines work a lot more efficiently
- They have demonstrated effectiveness for the Johannesburg Exchange, that have scaled up their capacity due to additional trading volumes
- Beek's have now gained regulatory approval to install their systems for one of the largest exchanges in the world
- The Exchange Cloud sales are anticipated to quickly dominate the group
- Whilst Beek's share price has already started to outperform, we believe that numerous exchanges will now come under pressure to keep up

Cash generative companies tend to have resilient upsides even in unsettled markets, all the more so when they are rebounding from low valuations

Source: FE Analytics, on a UK Sterling basis, bid to bid, from 31.07.2019 to 31.07.2024.
Past performance is not a reliable indicator of future returns.

The valuations of some UK microcaps start so low, that even after their share prices have recovered…

Premier Miton INVESTORS

- As a reminder, Yu Group was standing at a market capitalisation of around £16m in 2020 when the trust invested, despite having sales of £102m, net cash balances of £12m, and rapid growth potential at that time[1]
- Yet with its supply deal with Shell this year, the analysts now forecast that Yu Group sales will rise from £460m last year to December 2023, to £680m for the current year, and to £776m in 2025[2]
- Furthermore, Yu Group has become even more cash generative, with a free cash flow yield now running in double figures, even after its share price has already risen very considerably
- Yu Group's market capitalisation of £245m (as at 23.08.2024), and its net cash forecast to be £99m at the end of 2024, £123m at the end of 2025 and £144m at the end of 2026
- In a nutshell, this example outlines the scale of the potential for various portfolio holdings in the Miton UK MicroCap Trust

The Panmure Liberium analyst's assessment of Yu

United Kingdom | Business Services | Utility Services | YU/ LN | Market Cap £302.4m | 23 July 2024^

BUY **Target Price 2050p**
Share price 1890.0p
at close on 22/07/2024

*Corporate Broking Client of Panmure Liberum

Yü Group*
Growth in revenue, meter points and smart meters

Lead Author
Joe Brent
Research Analyst
+44 (0) 20 3100 2272
joe.brent@panmureliberum.com

Alex O'Hanlon
Research Analyst
+44 (0) 20 3100 2268
alex.ohanlon@panmureliberum.com

Next events

24th September	H1 results

Stock performance

Trading update guides to trading in line, despite a mild Spring, and we introduce H1 FD EPS assuming a 46% H1 weighting. We maintain our earnings estimates; gross margin worse, bad debts better. We reduce our FY 24 net cash (exc. leases) estimate from £112m to £100m, to reflect the buyback, capex and cash tax. We make 5 key points: 1) The financial drivers of the business continue to be strong. 2) We believe that lower energy prices are manageable. 3) Booking volumes have been strong, but off-set by lower prices. 4) The number of meter points has increased 35%. 5) At Yü Smart, 9k instals in H1 result in £0.6m of ILAR and the business should generate over £1m of ILAR by 2025. Maintain BUY and TP of 2,050p; a CY 25 P/E of just 9.0x.

Trading update guides to trading in line, despite a mild Spring, and we introduce H1 FD EPS assuming a 46% H1 weighting

Summary financials & valuation (£m)

Calendar year

EV (CY)	23A	24E	25E	26E
Market Cap	302	302	302	302
Net Debt/(Cash)	(31)	(99)	(123)	(144)
Pension & other adj.	0	0	0	0
EV	271	203	179	159

Valuation (CY)	23A	24E	25E	26E
P/E (x)	10.4	10.2	9.0	8.2
Div Yield (%)	2.1	2.6	3.7	4.1
EV/Sales (x)	0.6	0.3	0.2	0.2
EV/EBITDA (x)	6.4	4.6	3.5	2.8
EV/EBIT (x)	6.6	4.8	3.7	2.9
FCFe Yield (%)	4.5	26.2	11.6	11.0
Price / book (x)	6.5	4.4	3.1	2.4

…their valuations can be overlooked, because they still don't reflect the subsequent ongoing improvements coming through in the business

Source: [1]Bloomberg as at 31.12.2020. [2]Liberium

Forecasts are not reliable indicators of future returns.

Recently, local OEIC selling has greatly depressed UK-quoted microcap valuations and hence the trust's capital returns

Premier Miton INVESTORS

- The overall returns of the Miton UK Microcap Trust are not closely correlated with mainstream UK share prices, or even most other UK mid and smallcap trusts
- The outcome is a trust that has the potential to not only deliver exceptionally strong returns when small and microcap share prices are recovering, but to deliver attractive returns on a sustained basis even at a time when global markets may not be delivering very much return at all

Cumulative performance %	1 year	3 years	5 years	Since launch[1]
Trust NAV	-7.8	-44.1	3.3	15.7
Trust share price	-3.9	-43.0	12.3	3.0
IT UK Smaller Companies sector	22.1	-0.5	42.4	116.3
Deutsche Numis 1000 Index	19.4	-2.3	36.0	72.8

Discrete annual performance %	2019	2020	2021	2022	2023	2024 ytd[2]
Trust NAV	-8.2	50.0	20.0	-29.1	-20.2	2.2
Trust share price	-0.9	33.3	28.6	-28.7	-24.9	8.5
IT UK Smaller Companies sector	22.2	1.3	26.0	-20.4	3.7	19.1
Deutsche Numis 1000 Index	15.3	-1.5	25.0	-20.1	6.6	16.6

But when even tiny sums of capital are allocated to UK microcaps, their returns can be quite exceptional - as for the year from March 2020

Why do we believe UK microcaps are set to recover for decades from here?

Source: Morningstar™, as at 31.07.2024, net income reinvested, bid to bid basis. [1]Trust launched on 30.04.2015. [2]2024 ytd to 31.07.2024.

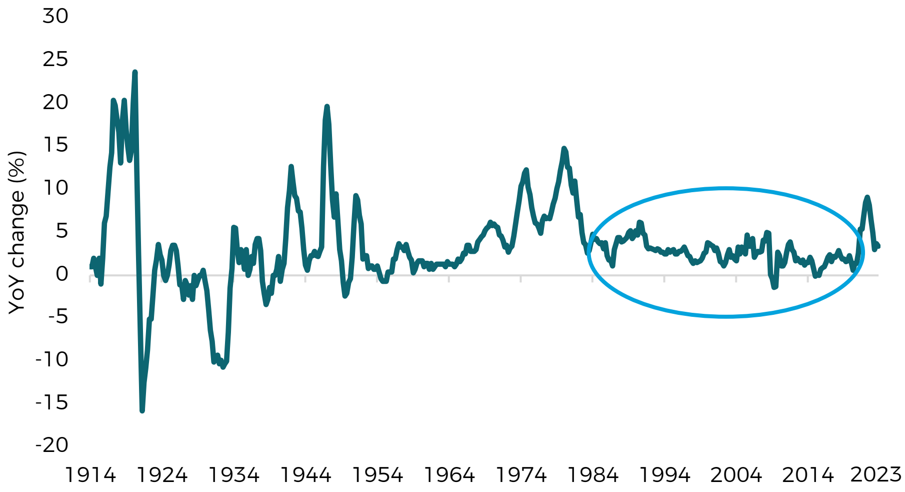
Past performance is not a reliable indicator of future returns.

Nationalistic and protectionist policies are now starting to drive deep-seated generational changes in financial trends…

Premier Miton INVESTORS

- The period of globalisation contrasted with others, in that the surge of low-cost imports offset ongoing local service sector inflation
- In the absence of the risk of inflation, central banks have injected additional demand at will when growth faltered
- Hence, global growth has been persistent, and as the cost of debt fell, the increased use of debt boosted corporate profit margins - ultimately to supernormal levels
- Since the mid-2010's however, nationalistic and protectionist policies displaced those of the globalisation decades
- Unfortunately, inflationary pressures now sit just below the water line, ready to resurface when additional demand is injected or when currency weakness is persistent
- Over the coming decades, longer term changes in inflationary pressures will be matched by equally deep-seated and profound changes in longer term trends in financial markets

US inflation has a history of being spikey
(other than during the period of globalisation)



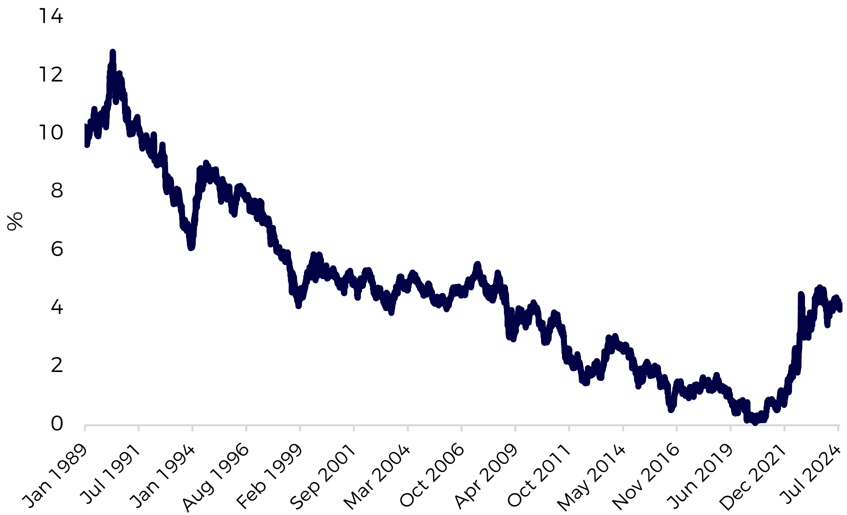
From here, inflationary pressures are returning to prior norms – they will routinely be too high, or else sub-zero and deflationary

Source: Bloomberg, US CPI Urban Consumers YoY Index, data from 31.03.1914 to 31.12.2023.

Meanwhile, governments have become so accustomed to operating without any real market constraints on expenditure…

- Prior to globalisation, it was very difficult for governments to balance expenditure with receipts, especially when receipts fell during a recession, or when there was an unplanned rise in expenditure, such as to fund a rise in unemployment pay for example
- With globalisation however, economic growth has been persistently strong, and corporate profit margins have risen, so government receipts have grown dramatically, whilst unplanned costs such as unemployment have tended to fall to generational lows
- Meanwhile as bond yields fell, the cost of government debt has also fallen. During these years, governments have had no real constraint of expenditure and even giant one-off expenditures could be actioned, such as during Covid when QE offset any shortfalls in bond investors
- Now that globalisation is fading, governments have greatly scaled up taxation to balance the books, and got away with unusually large budget deficits for now - that they cite as temporary
- But as the imbalances between government receipts and expenditure become persistent, we anticipate that excess taxes or QE will be offset by a pullback in demand from bond investors, driving bond yields up and thus making the budget imbalances greater

The cost of UK government debt fell dramatically between 1990 & 2020, but with globalisation fading this is changing



…that when market tailwinds die away, we anticipate that politicians (and indeed central banks) will be caught out as market constraints return

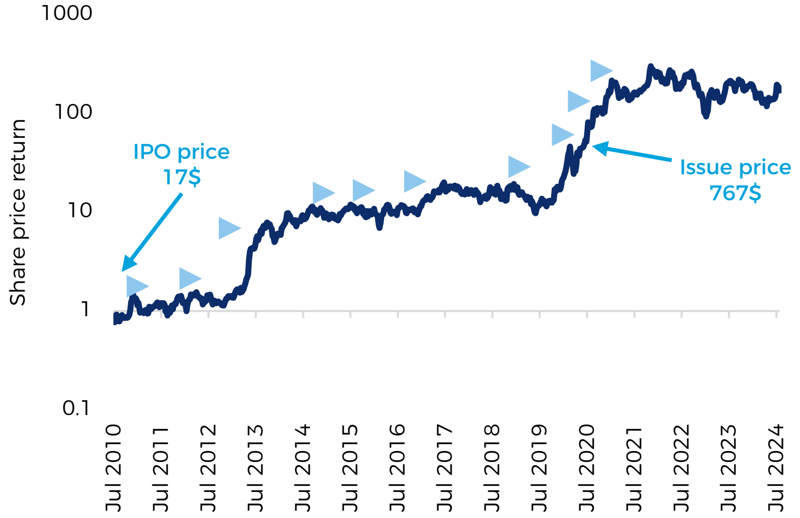
Source: Bloomberg, data from 02.01.1989 to 31.07.2024.

Buoyant markets and passive allocations actively drove up the valuations of largecap growth stocks for decades…

Premier Miton INVESTORS

- When asset markets were buoyant, and central banks could reverse recessions at will through injecting additional demand, corporates that needed external capital to survive have not only survived, but they've also thrived
- Specifically, a stock reliant on external capital to fund great growth prospects, was able to raise additional capital at progressively higher share prices whilst it delivered abundant sales growth
- This self-feeding process greatly enhanced the returns for early investors in growth stocks, plus as they scaled up their market capitalisations, their share prices were further enhanced as passive funds allocated ever larger capital sums to keep up with their mega cap index weightings
- Unfortunately, this self-feeding cycle wholly relies on asset market valuations appreciating, and growth stocks continuing to grow well
- Elevated interest rates work by suppressing demand, so growth momentum is currently due to stall – and even if interest rates were cut hard, their impact will only come through after a time lag
- Hence, whilst passive fund flows may increase further, mega cap valuations are now becoming unstable, potentially destabilising the ability for growth stocks to raise additional capital at ever higher share prices, which may mark the start of a reversal of the prior trend

Markets valuations have risen, and this tailwind has enhanced the share price of Tesla's capital raisings



…but as market tailwinds die away, the same stocks are now primed to heavily detract from shareholder returns via distressed issues

Source: Bloomberg, data from 02.07.2010 to 26.07.2024.

Past performance is not a reliable indicator of future returns.

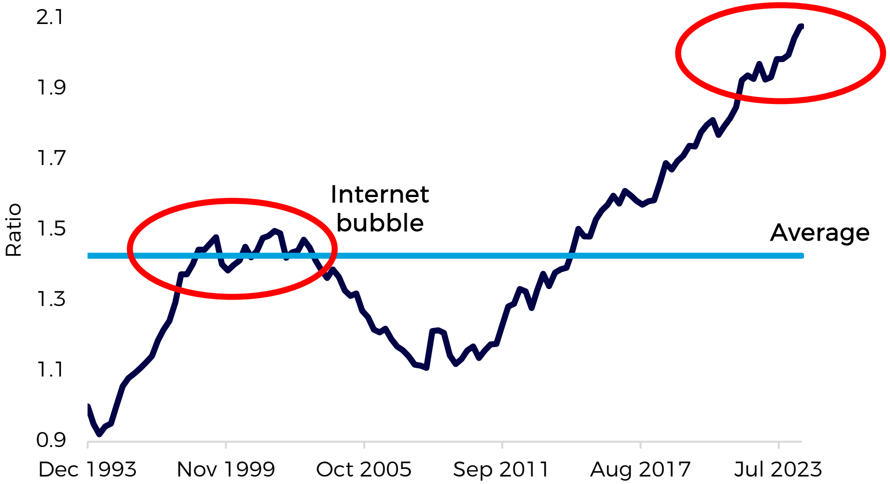
Overall, the valuations of growth stocks, most specifically those of US-listed growth stocks, appear wildly out of balance currently…

Premier Miton INVESTORS

- Market beta has generated such good returns, over such a long period, that low-cost, highly liquid passive funds have gathered considerable assets
- Over recent years, with ever-growing sums being invested in passive strategies, and with large portions being invested in US megacaps, the trend has become a reflexive, self-feeding cycle
- The price to book ratio is often used by academics as a measure of market valuation. As at 30 June, Alphabet was on 7x, Amazon was on 8x, Microsoft on 12x, Apple on 51x and Nvidia on a P/B ratio of 62x. For reference the FTSE100 P/B ratio is around 1.9x (as at 22.08.2024)
- Since so few investors have a full index weighting of US megacap tech stocks, whilst performance is remains incredibly strong, few can even justify taking profits on their very large weightings
- Overall, this has led to an incredibly crowded position that is super-sized in scale, invested in stocks that appear to be on very elevated valuations, and reliant on capital appreciation to generate return

The rise in US tech valuations has been amplified by passive investing in megacap index weightings

S&P 500 Index vs FTSE All World Index



…so, as market tailwinds die away, we fear US capital losses might be megacap in scale, along with potentially eye-watering downsides

Source: FTSE International Limited (“FTSE”)/S&P Dow Jones Indices LLC/Bloomberg, data from 31.12.1993 to 23.07.2024.
Past performance is not a reliable indicator of future returns.

For those without wide safety margins, this opens giant risks - either radically retrench, or else risk becoming insolvent…

Premier Miton INVESTORS

- During globalisation, market liquidity was abundant, and when economic setbacks occurred it was enhanced further by financial stimulus, such that even zombie companies survived
- As nationalism and protectionism displaces globalisation however, we are fearful that market constraints will bear down on governments and central banks
- In time, it may get harder to roll over existing loans as credit criteria tighten, which will initially lead to numerous zombie companies failing, although unfortunately their suppliers may fail in time due to bad debts
- Whilst bad debts won't be good news for stocks with strong balance sheets and cash-generative businesses either, their prospects should improve as they expand into all the markets vacated by insolvency
- In addition, quoted microcap can buy overleveraged, but otherwise viable businesses debt-free from the receiver, often for a nominal sum, greatly enhancing their upside at a time when mainstream stock market indices might be delivering very little return
- Overall, we believe that the forthcoming years will be defined by the strong getting stronger, and those with insufficient safety margins suffering badly, with numerous zombie companies at risk of insolvency

…whilst all the while listed stocks generating surplus cash will typically get stronger, with some getting disproportionally stronger

Active fund management isn't just about picking stocks with upside potential, but also about being attentive to downside risk…

Premier Miton
INVESTORS

- It is customary for fund managers to assess risk in terms of whether their strategy delivers a good return versus a median, or in comparison to the mainstream equity indices
- We are less concerned about variance versus indices, as long as the strategy is successful longer term, then any underperformance versus an index will be temporary, and followed by extra upside
- The risks we are most worried about, are related to a potential permanent loss of capital, where a major market drawdown is crystalised because there is no prospect of any subsequent recovery
- Furthermore, we are also wary of inherent risks that are difficult to capture within statistics, as sometimes these are disregarded, because measured risks easier to discuss and monitor
- Overall, as highlighted in the prior slides, we believe that investment risks might be rather more costly in future years, as the electorate drive nationalist and protectionist policy choices
- Given these concerns, the trust intentionally has greater diversification than most other trusts, a policy of selecting potential stocks set to generate abundant cash in future that has greater safety margins, and sometimes it has options that appreciate should global markets suffer a crash

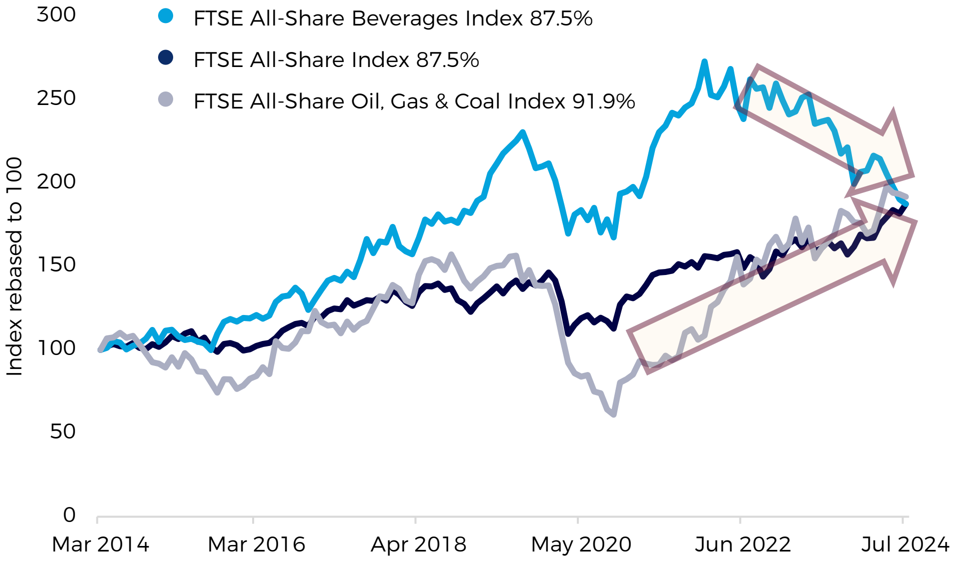
…and actively seeking to minimise portfolio drawdown risks, especially during periods when electorates drive radical change in political policies

Bonds and equities were typically diversifiers for each other in recent decades, but with inflation their returns correlate…

Premier Miton INVESTORS

- Those external to the financial services sector often assume that portfolio management is merely about investing in a number of stocks with upward price momentum, and taking profits before their share prices fall back significantly
- But this assumption overlooks event risk, where the prospects for numerous stocks can suddenly change and become quite weak
- When an unexpected event occurs, whilst the prospects for some portfolio holdings might be much weaker, across a portfolio hopefully there may be other relatively uncorrelated holdings where the event leads to their prospects becoming more upbeat
- In the example alongside, the prospects for many stocks in the Beverages sector were somewhat correlated to bond valuations, whereas the prospects for the Oil, Gas and Coal sector were principally correlated with the price of energy
- Following the invasion of Ukraine, and the revival of inflation, bond and equity valuations declined whereas the energy price increased, so a portfolio containing holdings in the Beverages and Energy sectors delivered better dividend income growth through the unexpected challenge, and a portfolio return that was much less volatile than either of the two industry sectors individually

Chart highlighting how industry sector diversification within a portfolio can sometimes moderate the volatility of overall portfolio return



…so, in future, stocks operating in capital-intensive sectors for example, may provide better portfolio diversification

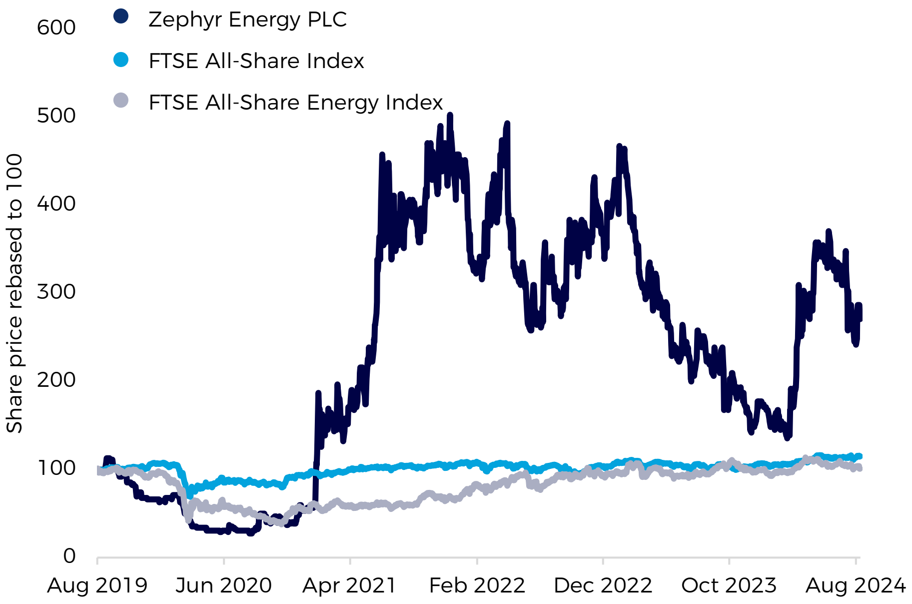
Source: FE Analytics, from 31.03.2014 to 31.07.2024.

Past performance is not a reliable indicator of future returns.

As capital becomes costlier, some capital-intensive businesses may even offer ‘option-like’ upside potential…

Premier Miton INVESTORS

- Many fund managers choose to avoid researching industry sectors such as complex financials or various mining or energy stocks, on the basis that they don’t have conviction as to imminent interest rates or commodity prices
- Including stocks like these that are often more uncorrelated with the fluctuations of most mainstream portfolio holdings actively helps to diversify risk, and hence dilute potential drawdown risks
- Better still, because of the supply/demand characteristics of many of these industries, when they succeed, their profitability and potentially their cash generation can sometimes rise rapidly
- If anything, because microcap operators are often immature, their scope for profitability increases can sometimes be even greater than those of the mainstream stocks in these sectors



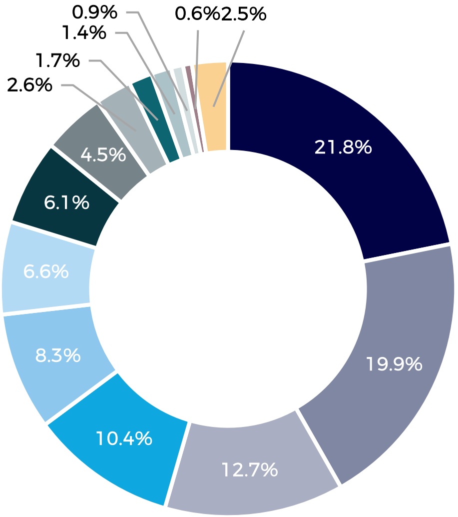
…because if demand is sustained, their ‘corporate moats’ notionally widen, and their profitability will sometimes increase dramatically

Source: FTSE International Limited (“FTSE”)/Bloomberg, from 12.08.2019 to 22.08.2024.
Past performance is not a reliable indicator of future returns.

Overall, a portfolio including a comprehensive list of industry sectors will not only have greater diversification…

- One of the advantages of portfolio investing, is that the volatility of individual stocks is reduced, due to any absolute stock specific losses being offset by others that generate absolute stock specific gains
- The unit price volatility of a portfolio with numerous portfolio holdings with very uncorrelated returns tends to be less than a portfolio where the portfolio holding are more correlated
- At times when geopolitical and economic risks are elevated, portfolios with better diversification are more likely to deliver a sustained return than those that have much higher levels of correlation between holdings
- A multicap portfolio includes individual holdings that are largely mature, along with others that are less mature
- In addition, a portfolio with a comprehensive list of industry sectors is also likely to be more diversified than those with a narrower range
- We believe that the long list of diversified holdings generating surplus cash, not only has the potential to better manage downside risks, but also to enhance their upsides as they move into markets where the weak have withdrawn

Trust sector weightings



	Weight %
Information Technology	21.8
Materials	19.9
Financials	12.7
Industrials	10.4
Utilities	8.3
Energy	6.6
Consumer Discretionary	6.1
Health Care	4.5
Communication Services	2.6
Real Estate	1.7
Funds	1.4
Consumer Staples	0.9
UK Put Option	0.6
Cash/Net Current Assets	2.5

…but also maximises its chances that event downsides can be offset, at least in part, by the extra upsides of other portfolio holdings

Source: Premier Miton, data as at 31.07.2024.

If corporate insolvencies do become more numerous, then cash generative stocks will have the best access to additional capital…

Premier Miton INVESTORS

- One of the problems of having a large market position during a global recession, is that as demand declines, it is difficult for a large cap business to take enough additional market share from others to offset the setback
- Since less immature stocks normally have lesser market shares, if they are adept, sometimes they can take more than enough market share from others during the downturn, so their overall profitability continues to grow
- Furthermore, those with access to capital (such as plc's) can also acquire over-leveraged but otherwise viable businesses from the receiver often on ultra-low valuations, where the good rates of return on the invested cash can be strong
- When a largecap acquires businesses from the receiver however, often the absolute added value only amounts to a relatively small percentage of their market capitalisation
- In contrast, when a smallcap does an identical deal, the absolute added value is a much larger percentage of their market capitalisation, so these deals can greatly enhance their upside potential, sometimes in a transformational way

K3C share price

…and be able to fund low-cost, debt-free acquisitions, including some potentially large enough to generate transformational returns

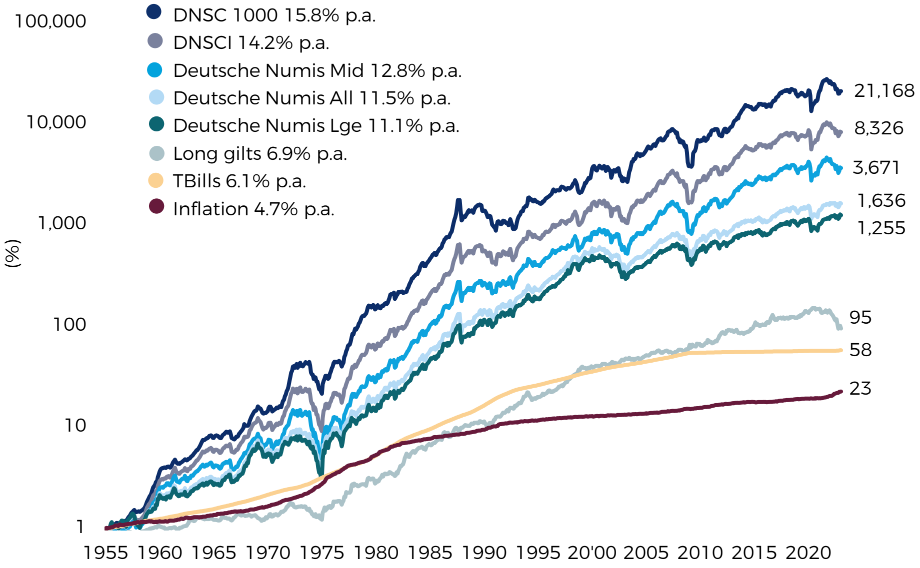
Source: Bloomberg, on a UK Sterling basis, from 14.04.2017 to 13.02.2023. K3 Capital were acquired by Sun European Partners LLP in 2023.
Past performance is not a reliable indicator of future returns.

‘Bigness’ may have prospered during globalisation, but in future we believe smallness may be one of the few areas that appreciates well…

Premier Miton INVESTORS

- The largest 80% of UK-quoted companies (known as the Deutsche Numis Largecap Index) typically underperforms the Deutsche Numis All Share Index on a near-permanent basis
- When the cost of capital rises, and demand is supressed so it eventually falls below supply, all companies are vulnerable to margin compression. But largecaps, with their large market positions normally find it harder to dodge the recessionary bullets
- Hence if economic conditions do become persistently more challenging, we believe that stockmarket index returns might struggle to keep pace with inflation, especially if asset valuations were to return to past norms
- In addition, most large quoted companies operate in a narrow range of sectors, so their industry sector risk is typically replicated across a wide range of developed market exchanges
- The arguments above imply that as market dynamics change, investors should anticipate that the potential for smallcaps may diverge considerably from those of largecaps

Total return of the Deutsche Numis family of UK stock market indices, 1955-2021



…given their low valuations of smallcaps, their lesser reliance on global growth, and ‘option-like’ upside potential at a time of uncertain political risks

Source: Deutsche Numis ; Evans and Marsh, Deutsche Numis Indices 2021. Annual Review; Dimson-Marsh-Staunton DMS Database, 2023.

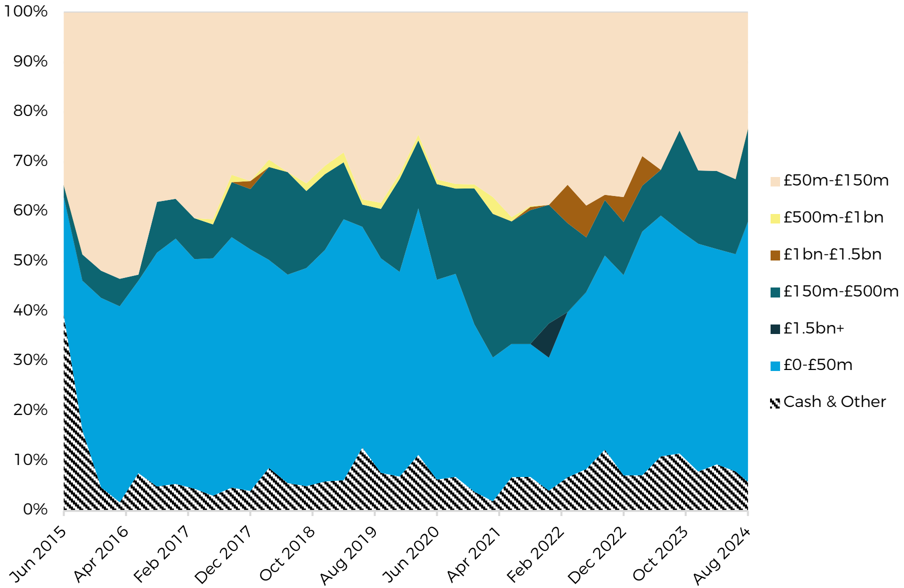
Past performance is not a reliable indicator of future returns.

The Trust's portfolio focuses on lowly-valued UK microcaps – that are actively overlooked…

Premier Miton INVESTORS

- During globalisation, in general capital has been withdrawn from UK smallcap funds
- The sector does still exist however, and during globalisation most have evolved strategies that favour a relatively short list of midcaps, or larger smallcaps
- In the case of a portfolio of say £500m, invested in 40 holdings for example, each investment needs to be £12.5m, and thus this automatically excludes stocks below say £150m irrespective of the scale of the upside potential, or their ability to diversify portfolio risk
- This habitual behaviour means that almost no professional investors are willing to research UK-quoted microcaps, and has resulted in many declining to what we consider to be absurdly low valuations
- Meanwhile, when some of these microcap share prices recover, as they rise into the investment universe of smallcap funds, they are still standing on valuations where the professional investors enthusiastically invest in them
- Given this dynamic, the trust has the potential to select low-valued UK microcaps, that are maturing and set to generate surplus cash, where their share price valuations are likely to be enhanced as they get larger, making it easy for the trust to sell the holdings and reinvest in other microcaps standing on what may be very overlooked valuations

Trust Market Cap buckets since 2015 (% NAV)



…until their market capitalisations increase enough, when they are often enthusiastically purchased at much higher valuations

Source: Bloomberg, data from 30.06.2015 to 27.08.2024.

Stocks like Cerillion, built a strong record of good and growing dividend income over several years....

- Cerillion first listed in March 2016, with a market capitalisation of £23m and we were foundation shareholders
- Whilst the Cerillion share price didn't appreciate significantly for some years after issue, it gradually built an increasingly significant market share in providing billing software for mobile network businesses
- Over time, as the growth of its business accelerated, and as its market capitalisation increased, it rose to be large enough to be researched by a wider range of institutional shareholders
- Given its growth characteristics, and the potential to map out the future profitability and cash generative potential, along with a decline in the discount rate, its valuation rose dramatically
- This appreciation made it easy to take very substantial profits, and reallocate capital in other small and microcaps standing on very overlooked valuations with what we consider to be disproportionate upside option value
- Some will highlight that in this case, we may have sold too early, but we would argue that stocks standing on demanding valuations carry greater downside risks were their prospects to peak out for some reason

Cerillion share price

...before benefiting from a dramatic valuation improvement, when it came to the attention of the wider pool of institutional investors

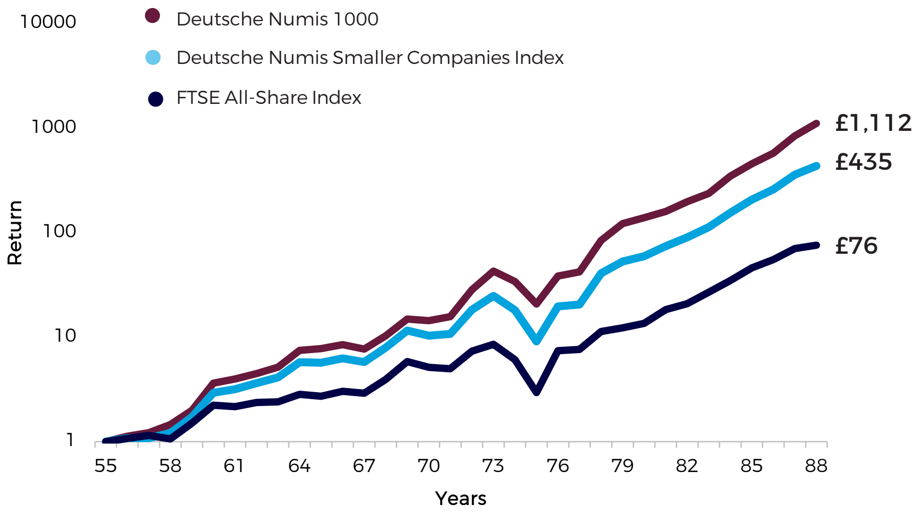
Source: FE Analytics, on a UK Sterling basis, bid to bid, from 18.03.2016 to 31.07.2024. **Past performance is not a reliable indicator of future returns.**

In the past when nationalism and protectionism were rife, low-cost acquisitions enhanced the upside of the financially strong…

Premier Miton INVESTORS

- Economic conditions were very testing in the UK between the 1960's and the late 1980's, yet the period was marked by relatively strong returns from the FTSE All Share Index, as numerous equity income stocks thrived
- Even so, despite the weakness of the Sterling exchange rate which favoured stocks with major international operations such as those in the FTSE100 Index, UK smallcaps nonetheless outperformed considerably
- Specifically, as many stocks with large debts suffered, those with strong balance sheets had the advantage
- Whilst a low-cost acquisitions from the receiver might have generated a good uplift in value for an individual largecap, the same uplift is so much more lucrative in the case of a quoted smallcap, and potentially transformational for some
- The bottom line is that, counterintuitively, the returns on quoted small and microcaps were generally much stronger than global largecaps despite this being a period when Sterling was persistently weak

Performance of Deutsche Numis 1000 v Deutsche Numis Smaller Companies Index[1] vs FTSE All-Share Index 1955-1988



…although it was financially-strong, quoted microcaps that typically had the greatest upside potential of all

Source: Deutsche Numis Securities, Elroy Dimson and Paul Marsh of London Business School. [1]Formerly RBS Hoare Govett Smaller Companies Index.

Past performance is not a reliable indicator of future returns.

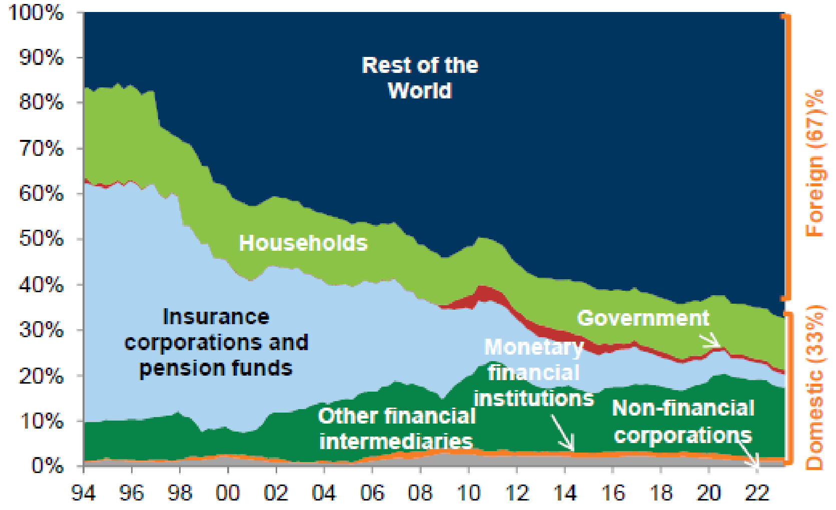
After decades of UK underperformance, as cash compounding strategies become popular again, the UK is set to outperform…

Premier Miton INVESTORS

- Prior to the period of globalisation, UK institutions held the vast majority of UK-quoted companies
- With the ongoing underperformance of the UK stock market, progressively over time institutions have reduced their UK equity weightings and reallocated capital into other stock markets overseas
- When a trend like this becomes persistent over decades, then the capital outflows progressively depress the valuation of the less-favoured exchange, depressing its return yet further
- From here, we anticipate that there will be a radical shift in portfolio allocations from growth stocks to equity income stocks, reflecting the political change from globalisation to nationalism
- In our view, this change will greatly favour the returns of the UK exchange, in part because it's dominated by equity income stocks, in part because it is currently standing on what appear to be sub-normal valuations, and in part because even most UK institutions will need to scale up their portfolio weightings in UK equities
- In our view, the greatest upside potential lies with microcaps

…67% of UK equity is owned outside the UK – it was 17% in 1994

UK equity market ownership



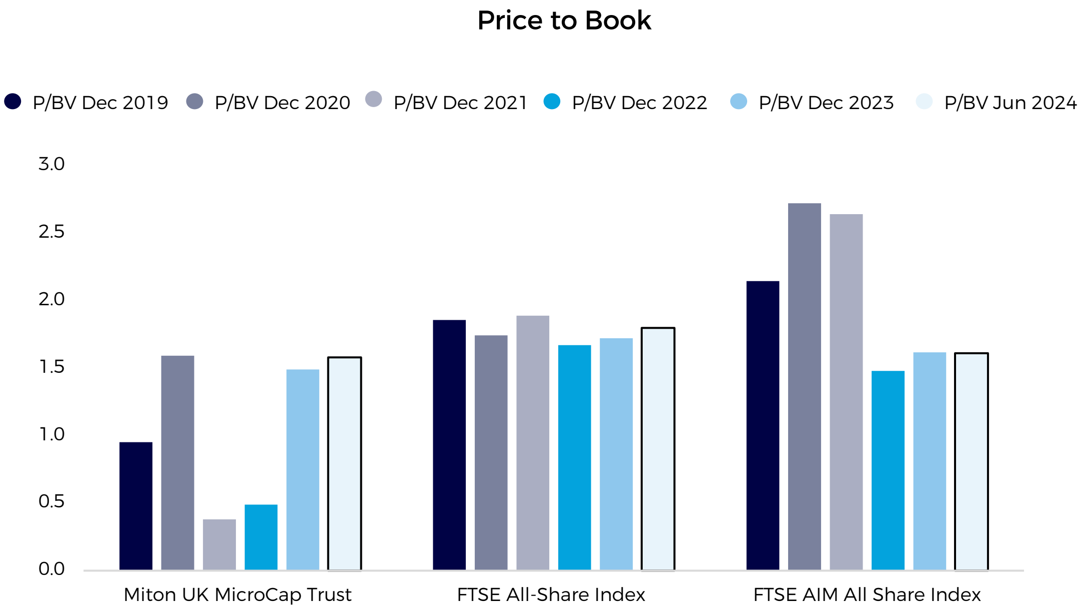
…and with the renewed capital inflows, we believe that UK microcaps appear to have the greatest upside prospects

Source: Haver Analytics, Goldman Sachs Global Investment Research.

The bottom line is that we believe the trust's strategy is now set for a UK super-cycle tailwind…

Premier Miton INVESTORS

- As outlined earlier in this presentation, investors have come to regard the UK exchange as one that is a perennial underperformer
- Even so, since issue in 2015, the Miton UK MicroCap Trust has been able to deliver attractive returns during periods when the global economy was in recession such as from March 2020 onwards.
- As the UK stock market has started to recover, many UK mainstream stocks are still standing on very undemanding valuations
- Alongside, the bar charts highlight how much the valuation of AIM listed stocks has been devalued over recent years, hence their additional recovery potential compared with UK mainstream stocks
- Specifically, we believe the new tailwinds will become persistent for an extended period, maybe for a period of some decades



…with even tiny capital allocations driving considerable microcap returns, and then further upside if they make low-cost acquisitions

Source: Bloomberg, as at 30.06.2024.

Past performance is not a reliable indicator of future returns.

We believe the trust is near-unique in its strategy, given its ability to buy the most oversold stocks, including tiny ones…

Premier Miton INVESTORS

- The top 20 holdings of the Miton UK Microcap Trust alongside highlights the microcap nature of its portfolio
- Whilst the trust does hold some microcaps that have risen large enough to be classified as smallcaps, the overwhelming majority of the portfolio is invested in genuine microcaps, that typically stand on very overlooked valuations, and have the potential to deliver 'option like' upsides
- The UK OEIC redemptions that have typically driven down the share prices of UK-quoted microcaps are lessening
- Specifically, as each holding does not have to reach a certain minimum percentage of the portfolio, the trust typically includes numerous stocks where their share prices are so oversold that their market capitalisations are tiny, and appear completely out of line with the intrinsic scale of companies that typically employ hundreds or thousands of staff, and routinely millions of pounds of turnover

Top 20 trust holdings	Weight %
Yu	7.8
MTI Wireless Edge	2.8
Zoo Digital	2.6
Concurrent Technologies	2.1
Beeks Financial Cloud	2.0
Trufin	1.9
CyanConnode	1.9
Invinity Energy Systems	1.9
Zephyr Energy	1.9
Mercia Asset Management	1.7
Serabi Gold	1.6
Zotefoams	1.5
Savannah Resources	1.5
TPX Impact	1.5
Frontier IP	1.5
Incanthera	1.5
Marwyn Value Investors	1.4
Zinc Media	1.4
STM	1.4
Van Elle	1.4

…at a time when the FTSE100 Index has recently broken out of its 1999 trading range on the upside, and smallcaps are due to follow

Source: Premier Miton, data as at 31.07.2024.

The Miton UK Microcap Trust has a number of key features that may further enhance the prospects for its strategy…

Premier Miton INVESTORS

- **Investment trusts have the potential to deliver premium returns**
  When investors board their portfolio allocation to include those that generate return via cash compounding, as well as capital appreciation, then some smallcap OEICs may grow beyond their ability to deliver a return. An investment trust doesn't carry this risk, as the board can cease to issue new shares
- **Seek to minimise the friction of stock market daily trading volumes**
  The trust's redemption mechanism regularly clears the register of ongoing institutional sellers, which reduces the chances of 'Mexican stand-off' in the daily market where buyers hold back until large sellers have cleared. Removing this friction enhances its daily stock market trading volumes
- **The trust's share price to stand at a premium to its NAV**
  Whilst the trust's share price has stood above and below its NAV at times since issue, in general it has stood at a discount over recent years when investors have been withdrawing capital from UK equities,
- **Competitive costs**
  The trust doesn't have a formal benchmark so there aren't any performance fees. The current ongoing charge figure (OCF) is 1.99% which would be greatly reduced if the trust becomes larger as the management costs are limited to 0.9% for the first £100m of market capitalisation, and 0.8% on anything beyond

In our view, an investment trust is the best method of fully participating in the full upside of forthcoming UK super-cycle

Source: Premier Miton. Trust OCF calculated as at 30.04.2024. The ongoing charges figure (OCF) is not the same as the ongoing costs figure set out in the Company's key information document. The key differences are that gearing costs and portfolio transaction costs are not included in the OCF. In addition costs are calculated on slightly different bases. The OCF figure set out above mirrors that in the Report and Accounts and is based on costs incurred in the year which are likely to recur in the foreseeable future. The ongoing costs figures in the key information document provide investors with the impact costs have had on returns averaged over the five year recommended holding period.

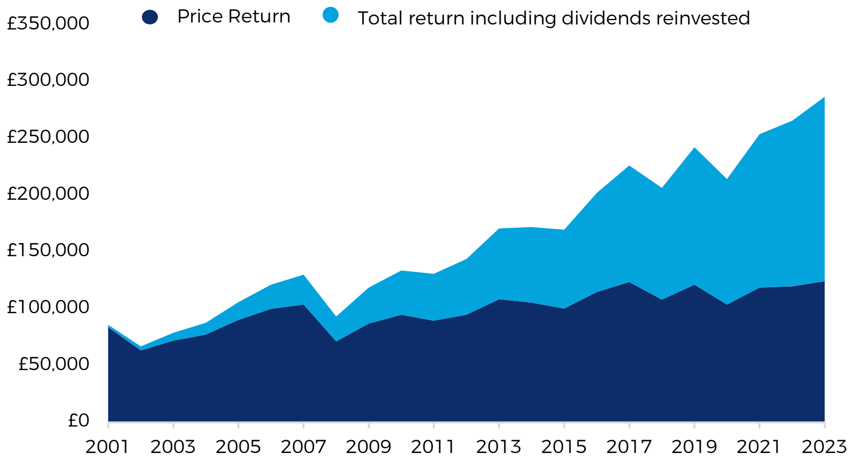
We anticipate that a new self-feeding virtuous spiral has already started within the UK stock market…

Premier Miton INVESTORS

- The UK stock market is dominated by capital intensive stocks, that typically invest substantial sums of capital, and then provide a return via a stream of good and growing dividends
- Interestingly, when economic conditions are testing, equity income stocks not only start with a greater margin of safety, but if conditions get very testing some can use their surplus cashflow to improve their income by expanding into markets vacated by insolvent competitors
- Better still, some can acquire overindebted but overwise viable businesses, debt-free from the receivers often for a nominal sum, and greatly enhance their prospective cashflow and dividends
- Specifically, when economic conditions are unsettled, dividend compounding strategies have a history of generating better returns than those that rely on capital appreciation, because some capital growth stocks run out of capital, or are obliged to raise new capital at very dilutive share prices
- Specifically, we anticipate many investors may scale back their weightings in largecaps, and seek to increase their weightings in small and microcaps, in a trend that could potentially persist for decades

The UK is near-unique in its large universe of dividend compounding stocks

Value of £100.000 invested in the FTSE 100 Index, (2001 to 2023)



…and now anticipate UK microcap outperformance that will last for decades.
In short, we're getting ready for a UK microcap super-cycle.

Source: Bloomberg, data as at 31.12.2023.
Past performance is not a reliable indicator of future returns.

Premier Miton INVESTORS

Conclusions

1

During globalisation, decades of buoyant asset valuations have led to capital appreciation strategies to become popular at what now appear to be exceptionally overstretched valuations

2

As the electorates become insistent on radical change, politicians and central banks appear unprepared for the return of market constraints regarding budget and current account deficits

3

All this implies giant risks for the unwary – capital appreciation strategies invested in assets on elevated valuations now carry the risk of near-instantaneous, permanent losses without warning

4

Equity income strategies by their nature are 'self-liquidating', so in our view, the UK exchange is now set to become one of the best performing markets globally, potentially for some decades

5

Renewed capital allocations into the UK exchange, will have the largest impact in the potential returns of UK small and microcaps in our view , that we now expect to be one of the best performing parts, of one of the best performing exchanges globally

6

We fear that high-performance strategies are now at risk of becoming overrun with capital interest, favouring the investment trust structure as it can limit inflows, by allowing the trust's share price to trade above its underlying NAV, once the trust has reached optimum capacity

Appendix

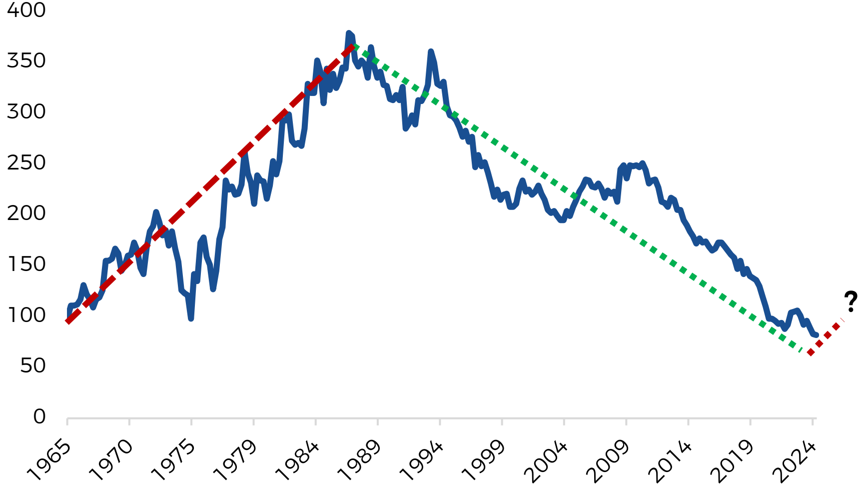
Reassuringly, when there were inflationary pressures before, the UK stock market outperformed the US for decades…

Premier Miton INVESTORS

We anticipate the outperformance of the UK stock market will surprise in both scale and duration

- After decades of UK equity market underperformance, most local investors have scar tissue that influences their assessment of the prospects of the market in the future
- Interestingly, UK equities look very different from the perspective of international investors
- As many have very modest low-beta weightings, they welcome return generated by income compounding instead of capital gain alone, as this represents genuine portfolio diversification
- The UK market mainly comprises equity income stocks, that have higher margins of safety if economic conditions remain testing
- Its valuations are standing below equivalent stocks quoted on other exchanges, so they may have greater upside potential
- Importantly, as most global investors are so heavily underweight the UK stock market, it is starting from a very undemanding valuation, which gives it even greater scope to surprise on the upside in scale and duration

A chart of the FTSE All-Share Index versus the S&P 500 Index, both in a common currency (1965 – 2024)



…and over time global investors came to hold increasingly large UK stock market weightings

Source: Bloomberg/ S&P Dow Jones Indices LLC., data from 31.03.1965 to 28.06.2024.

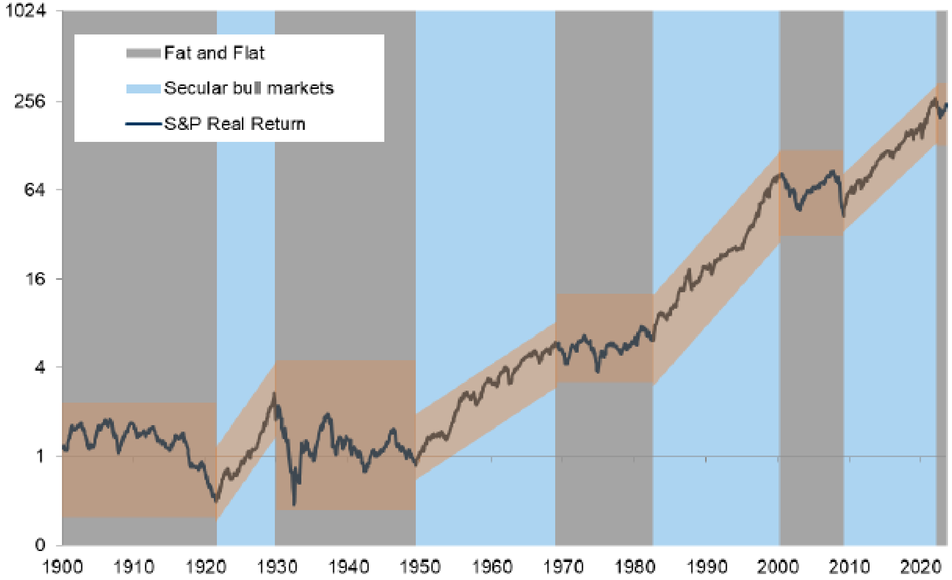
Past performance is not a reliable indicator of future returns.

At times the mainstream indices deliver a series of years of strong appreciation as valuations and profit margins rise…

Premier Miton INVESTORS

- Long term stock market returns can be sorted into multi-year segments where their returns were well above underlying inflation, and those where returns were not above underlying inflation
- During the buoyant periods, as return is relatively abundant, typically investors narrow their investment universe into the mainstream stocks given they also have the advantage of copious market liquidity
- When market returns are relatively poor however, investors' priorities change, given the urgency to generate an absolute return that doesn't rely on general market appreciation
- Specifically, when the returns on the mainstream indices are relatively poor, market correlation becomes a hinderance, as it specifically holds back the potential to deliver attractive absolute returns
- When market returns are relatively poor, investors often tolerate lesser market liquidity because absolute returns and portfolio diversification are so vital to get good client outcomes

Secular & non-trending bull markets - S&P 500 (log scale)



…although markets can flatline in real terms too, when investors need to identify specialist parts of the market that are continuing to perform

Source: Robert Shiller, Goldman Sachs Global Investment Research.
Past performance is not a reliable indicator of future returns.

Important information

For Investment Professionals only. No other persons should rely on any information contained within.

Whilst every effort has been made to ensure the accuracy of the information provided, we regret that we cannot accept responsibility for any omissions or errors.

The views and opinions expressed here are those of the author at the time of writing and can change; they may not represent the views of Premier Miton and should not be taken as statements of fact, nor should they be relied upon for making investment decisions.

Reference to any particular stock/ investment does not constitute a recommendation to buy or sell the stock / investment.

All data is sourced to Premier Miton unless otherwise stated.

A free, English language copy of the trust's full Prospectus, the Key Information Document and Pre-investment Disclosure Document are available on the Premier Miton website, or copies can be requested by calling 0333 456 4560 or emailing contactus@premiermiton.com.

Financial Promotion issued by Premier Portfolio Managers Limited, (registered in England no. 01235867), authorised and regulated by the Financial Conduct Authority, a member of the Premier Miton Investors marketing group and a subsidiary of Premier Miton Group plc (registered in England no. 06306664). Registered office: Eastgate Court, High Street, Guildford, Surrey GU1 3DE.

014214/300924

Premier Miton
INVESTORS

Premier Miton Investors

premiermiton.com

info@premiermiton.com

Watch our videos on **Asset TV**

www.asset.tv/channel/premier-miton-investors

Regular **INSIGHTS** on our website